

Fiscal Highlights

Internal Services Funds Review and Follow-up - Gary K. Ricks

During the 2012 interim, the Office of the Legislative Fiscal Analyst issued a [report and survey](#) reviewing the states major internal service funds (ISFs). During the 2013 interim, the office prepared a [follow-up report and survey](#) to identify improvements as well as any possible unresolved or new concerns. The Analyst provided the report to the Executive Appropriations Committee on November 19, 2013.

An ISF is a state entity that provides goods or services to other government agencies. ISFs employ best business practices to adequately identify costs of certain governmental services. ISFs operate on a cost-reimbursement basis from the customer/stakeholder agencies they serve. The departments of Administrative Services, Technology Services and Human Resource Management operate the major ISFs.

Per statute, ISFs report to rate committees annually. The meetings are usually held in late August and early September. The respective rate committees approve or change rates before recommending them to the Governors Office of Management and Budget and the Legislature.

Legislative oversight of the ISFs includes:

- Approval of the ISFs budget request;
- Approval of the ISFs estimated revenue based on the rates and fee structure;
- Approval of the ISFs rates and fees;
- Approval of the number of FTE and authorized capital outlay; and
- Publishing the approved annual revenue, rates/fees, FTE and authorized capital outlay in an appropriations bill(s).

As part of the follow-up report, the Analyst again conducted a survey. Twenty-four customer/stakeholder agencies participated generating 101 survey responses. This years results showed, that overall, customers/stakeholders are satisfied with the services provided by the major ISFs. They also indicated that service during the past year has remained the same or improved. The following were the areas with the highest average satisfaction:

- The level of customer service;
- ISF staff knowledge; and
- Accessibility and communication of the ISF staff to customer agencies.

The responses also identified some concerns, which include the following:

- Some agencies continue to experience difficulties understanding and interpreting ISF billing invoices;
- The committee rate-setting process is not viewed as working as well as it could or should;
- Customers would like the ability to approve and resolve invoice billings questions prior to automatic payment transfer; and

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- Customers would like greater ISF transparency with fiscal reporting.

Given these concerns, the Analyst has the following recommendations:

- Increase customer agency representation on each of the ISF rate committees by three additional members;
- Encourage the Division of Finance and the ISFs to allow additional time before automatic payments are executed; and
- Require ISFs to post their annual financial statements to their respective websites.

The Analyst believes that communication and increased understanding between ISFs and customer agencies is improving. The underlying purpose of these recommendations is to continue to strengthen this two-way communication between ISF leaders and staff with their counterparts in the customer/ stakeholder agencies, thereby improving the overall operational efficiency and effectiveness of state government.